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Regional industrial policy and the new agenda for growth

The case of North Jutland

By

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Abstract

Even though the structural reform of the Danish administrative three-tier system in general implies a centralisation of the policy decision-making process, centralisation may not apply entirely to the field of industrial policy as the result of the implementation of the new national law on industrial development. Describing the implications of the law in terms of the changes of the regional setting for industrial policy and the ensuing focus on a new agenda for growth, the paper devotes its attention to the region of North Jutland that has been designated as a test case for the organisational intentions of the law. It is argued that while the law aims at simplifying the organisational setting of industrial policy, to some extent in order to avoid goal conflicts on policy, the practical experiences so far with the *raison d'être* of the law indicates a process of forming broad regional policy coalitions rather than centralising the decision making power. However, since the political bodies involved in industrial policy will become fewer, more powerful and more focussed on industrial policy, goal conflicts are likely to occur in the future.

Background

In April 2004, the Danish government announced a structural change of the three-tier administrative system of the Danish public sector (Regeringen, 2004a). The announcement was so far the final step of a long-term Danish tradition for administrative structural change (Gjerding, 2005a) and was by some interpreted as a process of centralisation of governmental decision-making (Blom-Hansen & Christensen, 2004; Gjerding, 2005a). Regarding the issue of industrial policy, the political process prior to the 2004 announcement indicated a centralisation of decision-making and a stronger emphasis on leaving some part of the industrial policy to market forces (Gjerding, 2003), i.e. the part of industrial policy that has to do with public consultancy in relation to private firms. However, the implementation of the structural reform during the last five months seems to indicate that the interpretation of a centralised decision-making in industrial policy may not be entirely valid.

During the spring of 2005, the legislative process of the structural reform has taken place, and on June 16th the Danish government passed a *Law on industrial development* (in Danish: Lov om erhvervsfremme) where the purpose of the law is to strengthen the development of Danish industry by promoting competitiveness and globalisation by five main types of activity, cf. box 1. Even though the law is new, the activities mentioned reflect the logic that during the last couple of decades has applied to Danish industrial policy (e.g. Gjerding, 1997, ch.2; Gjerding, 2003), although cooperation on industrial policy between private business and public authorities is being stronger emphasised than previously. However, this is in line with the practice of industrial policy during recent years where national, regional and local government has put a strong emphasis on cooperating with key persons and organisations within the private business sector on a range of policy initiatives and bodies.

Box 1. *The purpose of the Law on industrial development (§1)*

- Adjust and develop the framework conditions for company growth, international cooperation and international trade.
- Promote the adjustment of the industrial structure with respect to conditions of competition, environmental issues, and the development of society in general.
- Support industrial growth and employment at the regional level.
- Strengthen the cooperation between public authorities in the field of industrial policy.
- Develop the cooperation between government and private business on industrial change.

The change of the regional setting for industrial policy

Although the law on industrial development reflects the logic of the Danish industrial policy on which there has been a widespread consensus in national, regional and local government during the last couple of decades, the law does, however, imply some new principles for organising industrial policy at the level of regional government. The aim of these new principles is to create a more simple organisational structure in order to avoid that the regional structure for industrial policy becomes too complex in cases where industrial policy plays a major role in regional policy and to secure that a structure is created in regions where industrial policy is only pursued to a small extent contemporarily. So far, the organisation of industrial policy at the regional level has taken different forms across the Danish regions, where some regions have established one or more bodies dealing specifically with industrial policy while others have made it part of the existing policy structure. The most prominent example of a structure with several bodies is North Jutland where the allocation of funding for regional policy is undertaken by a development foundation while an industrial council is discussing general policy. Furthermore, in 2003 the North Jutland region established an innovation council with the task of promoting the development of a regional system of innovation. In addition, most of the municipalities within the North Jutland region have formed councils for industrial policy on their own, i.e. one in the Aalborg area, one in the northern part of the region, and one in the southern part of the region, all of which have pursued industrial policy with regional impacts. This organisational proliferation reflects that industrial policy has been a centrepiece of regional policy in North Jutland, to an important extent facilitated by major funding from the EU structural funds (actually, the allocation of structural funding is supported by an additional three bodies, each of which is a combination between policy and administrative bodies).

The responsibility of industrial policy resides with the Ministry of Economics and Business Affairs and this continues to be the case, of course, according to the new law on industrial development. Within the Danish tradition of industrial policy, one or more councils on the design and implementation of industrial policy have always assisted the Ministry, and according to the new law, a national council of growth will undertake this task (see figure 1). Today, the responsibility for regional industrial policy rests with the regional government, and this will continue to be the case from 2007 and onwards when the current Danish regions become fewer and regional councils substitute the existing county councils. So far, the law on industrial development does not present any significant changes apart from the number of policy bodies involved in industrial policy. What is new is that the regional council is supposed to establish one or two councils for growth that to some extent will be responsible for regional industrial policy according to delegation provided by the regional council, where two regional councils can establish a joint council of growth by permission from the Minister of Economics and Business Affairs.

Figure 1 describes the new structure.

Figure 1. *The future structure of Danish industrial policy bodies*

| | Tasks | Members |
|--|--|--|
| <p>The national council for growth</p> <p>20 members</p> | <p>Advise the Minister of Economics and Business Affairs on the design of the national growth policy</p> <p>Comment upon national initiatives of relevance for regional industrial policy</p> <p>Initiate policy schemes within the national growth strategy and secure national finance of initiatives suggested by the regional councils of growth</p> <p>Advise the Minister of Economics and Business Affairs on national programmes with EU structural funding (including the associated regional programmes)</p> | <p>Chairman and 3 members appointed by the Minister of Economics and Business Affairs</p> <p>5 members, one from each region, appointed by the regional councils for growth (must be chairman of the regional council for growth)</p> <p>2 members representing the municipalities</p> <p>7 members representing employers' and industrial organisations</p> <p>2 members representing the Danish trade unions</p> |
| <p>The regional council</p> | <p>Is responsible for regional industrial development</p> <p>Establish one or two regional councils of growth</p> <p>Two regions may establish a joint regional council of growth by permission from the Minister of Economics and Business Affairs</p> | <p>Politicians elected through the ordinary general election for regional government</p> |
| <p>The regional council for growth</p> <p>20 members</p> | <p>Design a regional industrial policy within the framework of the national strategy for growth, emphasising the regional framework conditions, patterns of specialisation and development needs in peripheral areas</p> <p>Monitor the conditions of regional and local growth</p> <p>Develop and advise on funding for regional industrial policy, including funding from EU structural funds and national funds</p> | <p>3 members appointed by the regional council</p> <p>6 members appointed by the municipalities</p> <p>6 members appointed by industrial organisations</p> <p>3 members from regional knowledge and educational institutions</p> <p>1 member representing the employers' organisations</p> <p>1 member representing trade unions</p> |

The focus of regional industrial policy

The main driver for the national Danish industrial policy is the concern of the impact of globalisation on the Danish economy, including the threats of a net export of jobs to low-wage economies. Even though the effect of globalisation on the Danish economy regarding growth opportunities and employment is widely disputed (cf. Gjerding, 2005b), the political consensus is that the threats need to be taken seriously and that an advanced economy as the Danish one must be able to benefit from globalisation and increasing international flows of goods, services, finance and human resources. Thus, the basic policy perception of the Danish government is that globalisation presents more opportunities than threats, provided that the national industrial policy is tuned to make the most of the effects of globalisation (Økonomi- og Erhvervsministeriet, 2004). This includes regional policy as well.

Thus, the national agenda for regional industrial policy has increasingly changed in favour of creating conditions that are favourable to taking part in a globalised economy. The change has been supported by a number of reports and policy suggestions during the recent years, most notably by the suggestion of a national strategy of innovation proposed by the Danish innovation council (Innovationsrådet, 2004), a conglomerate of more than 200 people from private businesses, universities, ministries etc. that have formed a semi-private network discussing and proposing a national innovation policy and proliferating into five regional innovation councils. The innovation council has proposed that a national innovation policy must improve the framework conditions for microeconomic activities and especially focus on developing a number of new industries for growth based on social and industry-driven innovation due to the following five major threats to the Danish economy (Innovationsrådet, 2004):

- Pressure on the core competencies of the Danish economy.
- An increasing lack of advanced education and lack of coordination between the educational system and the industrial needs for competencies.
- Too limited creation of knowledge, including too few radical innovations and a lack of cooperation between universities and private business.
- Weak entrepreneurship regarding the ability to create and sustain new firms.
- Lack of strategic and internationally oriented leadership in Danish private business.

According to the Ministry of Economics and Business Affairs (Økonomi- og Erhvervsministeriet, 2004), the pursuit of the opportunities of globalisation needs to be part of the regional policy as well, and in the context of the new law of industrial development the threats from globalisation has been translated into six main activities that the regional councils need to pursue, cf. box 2. Even though the activities are biased towards technical, industrial and social innovation, they also emphasise initiatives directed towards the development of peripheral areas that traditionally have been an important part of Danish regional policy, to some extent reflecting a political commitment to create a balance of the distribution of growth and employment opportunities across and within regions (Gjerding, 2003). In consequence, the traditional

aim of regional policy to create an industrial balance between the centres of growth and the peripheral areas within and across regions are retained, however modernised since the aim is now part of a policy for promoting regional systems of innovation within the national system of innovation.

Box 2. *The main focus of the Danish regional councils concerning industrial policy*

The regional councils, and thus the regional councils for growth, are supposed to focus on the following activities:

- Innovation, knowledge development, and the sharing of knowledge between industrial actors, including private business and centres of knowledge, education and research.
- Development, implementation and use of new technology.
- Establishment and development of new private firms and businesses.
- Development of human resources, including regional competencies.
- Growth and development of the tourism industry.
- Growth initiatives in peripheral areas.

In the Danish public debate, it has often been argued that a change of the organisational setting and a modernisation of the political focus is needed in order to avoid goal conflicts on industrial policy. While the proliferation of bodies of industrial policy has created a degree of diversity that enables initiatives to be developed and implemented in a flexible manner, conflicts between competing goals may appear since organisational bodies tend to develop logic of their own. This is a well-known phenomenon often noticed by organisation theory and recognised within institutional theory (e.g. Røvik, 1998). As pointed out by Lindström (2005) analysing the Swedish experiences of matching growth policy and policies of regional development, there are ideally two ways of dealing with conflicts between policy goals. Either some goals are treated as primary goals restricted by secondary goals, or some goals are pursued as primary goals without restrictions while goal conflicts are solved by adding mechanisms by which adverse effects of policy can be compensated. However, these solutions have seldom been applied in practice. Instead, goal conflicts have been dealt with by formulating policy initiatives in terms of very broad goals that can be interpreted in more than one way. In effect, a wide range of policy initiatives occur where a lack of coordination between policy schemes serves the rhetoric purpose of pretending that goal conflict does not exist. Avoiding a situation like this implies that formulating more clear policy goals must be combined with a simplification of the organisational setting of industrial policy.

Lindström (2005) observes that instead of solving goal conflicts by simplifying the organisational setting and formulating the policy goals more clearly the emphasis has been on creat-

ing political consensus by establishing broad political coalitions where the coalition partners can find ways of pursuing their different goals simultaneously. To some extent, this has been the case in Denmark as well. The following section devotes its attention to the formation of broad policy coalitions by analysing the case of North Jutland that in a Danish setting represents an outstanding case of extensive organisational proliferation of organisational arrangements of industrial policy.

Organisation of regional industrial policy in North Jutland

The organisation of industrial policy in North Jutland has been moulded by the extensive use of EU structural funding that has occurred in the region during the last twenty years. The first EU funded programme was initiated in 1986 aiming at improving the implementation and use of new technology in private business firms, to be followed by thirteen programmes aiming at promoting industrial change, competence development of employed and unemployed labour force, and industrial development of peripheral areas. In total, the funding of these programmes has been 7.8 billion DKR comprising 2.3 billion DKR from EU structural funds, 2.7 billion DKR from national and regional funds, and 2.8 billion DKR from private investments, creating at least 15,000 jobs in the region inhabited by 500,000 people (Christensen, 2004). During the last couple of decades, learning has taken place in the sense that different types of sub-programmes within the general framework programmes have been developed continuously alongside a gradual change in policy focus that implies an increasing emphasis on innovation, development of human and social capital, and the promotion of new areas of growth like nano and materials technology, power electronics, information technology and bio-medical technology. The gradual change of the political focus has followed a path of increasing value added in policy formulation and the administrative practice of industrial policy associated with EU structural funding similar to the general patterns of policy learning that can be identified in most of the European regions that deal with EU structural funding (Bachtler & Taylor, 2003).

In brief, the main responsibility of regional industrial policy in North Jutland is delegated by the national and regional government to the North Jutland development foundation (Nordjyllands Udviklingsfond) that, assisted by three policy-administrative bodies, is in charge of EU funding and a supplementary funding by the county. Alongside the development foundation, an industrial council (Nordjyllands Erhvervsråd) serves an advisory function while an innovation council (Nordjysk Innovationsforum) established by the county, the municipality of Aalborg, the regional science park NOVI and Aalborg University is in charge of promoting the development of a regional system of innovation. These bodies cooperate intensively with the regional labour market council (Arbejdsmarkedsrådet), the regional union of municipalities (Kommuneforeningen) and with three sub-regional councils of growth, one in the south of North Jutland (Himmerlands Udviklingsråd), one in the region of Aalborg (Region Aalborg

Samarbejdet), and one in the northern part of North Jutland (Vendsyssel Udviklingsråd). In effect, although the main responsibility of regional industrial policy resides within one policy body, at least eight policy bodies and three policy-administrative bodies are involved in regional industrial policy. Supplementary, most of the municipalities within the region are engaged in local industrial policy, while several knowledge and education centres take industrial policy initiatives as well, notably Aalborg University and the regional science park NOVI. Furthermore, a wide range of semi-public organisations across the region are involved in consultancy, projects and policy initiatives in the field of industrial policy.

Thus, the organisational set-up of industrial policy in North Jutland is a plethora of regional and local policy schemes that could become an arena of goal conflicts as described by Lindström (2005). However, even though conflicts on different political goals do appear, there has been a broad consensus on policy schemes across the various political bodies within the region, for several reasons (Gjerding, 2006). *First*, overlap in policy schemes does exist, but in general there is a clear division of labour among the industrial policy agents (Nyholm, Jespersen & Thomsen, 2005). *Second*, even though the northern part of the region somewhat aggressively has pursued policy goals in order to attract a rather substantial part of the funding for industrial policy, goal conflicts have been dampened by a somewhat compromising political culture in the middle and south of North Jutland aimed at creating a dynamic balance between the economic development of the core and the peripheral areas of the region. *Third*, the policy goals of regional industrial policy have been broadly defined with the aim of creating regional coalitions in the sense described by Lindström (2005) and the implementation of policy has been based on network sense making (Rhodes, 1997) adhering to patterns of collaborative public management (Agranoff & McGuire, 2003). The process of network sense making has been facilitated by the fact that key policy decision makers hold strong and vital positions across the various policy bodies. *Fourth*, the feeling within the various policy bodies has been that North Jutland in a national and global context is a peripheral area where it is necessary to work together in order to develop and sustain the competitiveness of the region. Even though the meaning and usefulness of the concept of regional competitiveness can be questioned (e.g. Kitson, Martin & Tyler, 2004; Budd & Hirmis, 2004; Malecki, 2004), it has nevertheless served as an important focal point of political practice in North Jutland.

As the outcome of a broad political consensus focused on regional competitiveness combined with learning in policy decision-making, the industrial policy within the region has, in general, displayed a high degree of efficiency. During the last couple of decades, the transition from a region based on traditional industries within the primary and secondary sectors to a region with a growing share of industries related to services and the new economy has taken place at a higher speed in North Jutland than in the rest of Denmark, to an important extent facilitated by industrial policy (Nordjyllands Amt, 2003). In particular, the regional implementation of EU industrial programming has been extremely efficient in creating projects and

policy schemes with a significant impact on employment and growth, as compared to other Danish regions, especially during the recent programmes (Teknologisk Institut, 2003).

Regarding the implementation of the new law on industrial development, North Jutland has been designated as the test case for creating a regional council of growth. A temporary council of growth was established at May 3rd 2005, funded by an extraordinary national government grant of 200 million DKR and with the task of formulating a new growth policy of the region. At the outset, the temporary council of growth comprised a relatively small number of people, but early on the range of representation was increased, comprising people representing senior positions within the various political bodies, labour market organisations, education and knowledge institutions, and private business. Thus, the formation of a temporary council of growth has taken place according to the North Jutland tradition of forming broad coalitions on industrial policy.

In fact, the temporary council of growth has addressed the formulation of a new policy for growth by a combined top-down bottom-up approach. The top-down approach was applied during an intensive series of meetings in June, combining discussions among the council members with presentations from invited experts, and led to the formulation of four broad areas of policy among which the funding was allocated, i.e. experience economy (35 million DKR), development of service, manufacturing and food industries (60 million DKR), initiatives regarding high technology and seed capital (45 million DKR), and competence development, entrepreneurship, industrial analysis, and policy evaluation (60 million DKR). The bottom-up approach was subsequently applied by inviting all relevant actors in the region to submit proposals for projects and policy schemes during July-August. More than 160 proposals appeared and are now being subjected to analysis and recommendations by a series of committees, one for each policy area, formed by a combination of regional administrative staff and selected experts within the region. In October, the council for growth will choose among the proposals and allocate funding accordingly.

The combined top-down bottom-up approach has characterised most of the industrial policy schemes that have been undertaken in North Jutland during the last couple of decades, and the working of the temporary growth council has adhered to this established practice. However, while the top-down formulation of broad policy areas normally has included a set of rather well defined criteria for proposals, this has not been the case with the temporary growth council. In fact, the only main criterion for proposals to the temporary growth council has been that the proposals must focus on short-term growth opportunities and imply economic effects on a regional scale in line with the focus for industrial policy previously outlined in box 2. Whether this situation will lead to broad policy schemes entailing goal conflicts or not remains to be seen and is highly dependent on the type of decision-making process that the temporary council for growth will adopt.

Conclusion

Even though the structural reform of the Danish three-tier administrative system of the public sector involves a process of centralisation at the level of national government (Blom-Hansen & Christensen, 2004; Gjerding, 2005a), centralisation does not really apply to the field of industrial policy. Although the national treaty on the structural reform (Regeringen, 2004b) indicates that centralisation in the field of industrial policy will take place, the test case of establishing a council for growth in North Jutland has taken place according to a combined top-down bottom-up approach that has been the normal practice in North Jutland (as well as in many instances at the level of national industrial policy). In effect, a simplification of the organisational set-up of industrial policy has not occurred so far.

However, a simplification may occur to some extent in North Jutland in the near future. The board of the North Jutland development foundation (Nordjyllands Udviklingsfond) has recently decided to dissolve because its main policy functions will be taken over by the new council for growth. Furthermore, discussions within the regional industrial council (Nordjyllands Erhvervsråd) and the regional innovation council (Nordjysk Innovationsforum) indicate that these two policy bodies will dissolve as well. In effect, the number of policy bodies dealing with industrial policy in North Jutland will diminish from eight to six. Whether these changes in the organisational set-up of industrial policy represents a simplification or not depends on the strength of power that will be invested in the new council for growth. On the one hand, the council for growth is bound to become a powerful actor, partly because it comprises main policy decision-making actors, partly because it controls the essential parts of funding for industrial policy. On the other hand, the experience so far reveals that the council for growth has been very careful not to exert too much power and instead focus on creating a broad regional coalition on the new growth agenda. Furthermore, the sub-regional co operations of growth mentioned earlier are determined to continue to exist, and especially in the Aalborg area organisational changes are taking place aiming at creating an organisation that is more coherent and powerful than before. In addition, when the structural reform takes effect by January 2007 the municipalities will become fewer and larger, thus resulting in more powerful actors of local government.

Thus, it seems reasonable to suggest that the occurrence of fewer and more powerful actors in the field of industrial policy will lead to more powerful policy initiatives at the levels of both regional and local government. The extent to which these initiatives will be coordinated depends heavily on the ability of the council for growth to establish a regional coalition on industrial policy. If the council for growth fails to do so, political and organisational conflicts are bound to prevail. In sum, counteracting and coordinating local power simultaneously may become the most vital challenge to regional industrial policy in North Jutland, and probably across the new Danish regions as well where similar problems may occur.

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